
market conditions and legal standards, including applicable investment guidelines, Staff felt it was in the best interest of both parties to complete a new IMA with TCW (versus completing an amendment to selective parts of the existing contract). The starting point for a new IMA was SCERS' current IMA template for fixed income managers, with modifications needed to customize the agreement with TCW.

The proposed amendment to the IMA with TCW also includes the following modification to Exhibit A (Statement of Investment Guidelines and Objectives):

- The inclusion of both high yield bonds and bank loans/floating rate notes within the below investment grade 'plus' component of the core plus mandate, which in aggregate can comprise up to 20% of the portfolio. The current investment guidelines only allow exposure to high yield bonds, and not floating rate notes within the below investment grade component. Floating rate notes are a common piece of a core plus mandate, along with high yield bonds, and give a core plus investment manager greater flexibility to manage a portfolio, particularly in a rising interest rate environment. TCW provides exposure to high yield bonds and banks loans through the Metropolitan West High Yield Bond Fund and the Metropolitan West Floating Rate Income Fund, respectively.

Future IMA Amendments

Upon Board approval to hire a fixed income investment manager, the Board resolution typically contains language authorizing the *"President or Chief Executive Officer to execute an Investment Management Agreement and any other documents which may be reasonably necessary"* to complete the agreement. Recently, Staff has encountered situations where minor technical contractual amendments (i.e., fee reductions, permitting use of SCERS name for marketing purposes, amending investment guidelines) would improve our relationships between SCERS and its managers. However, the language in the current enabling resolutions does not provide Staff the ability to execute future documents, such as minor amendments to the IMA, including changes to investment guidelines and/or reduction in management fees, without Board approval or consent.

Staff is seeking Board approval that would allow the Chief Executive Officer to execute documents necessary to approve future amendments to Investment Management Agreements that are technical in nature, reduce management fees, or adjust investment guidelines to better suit the manager or current market conditions, but remain in compliance with the Board approved Fixed Income IPS. The proposed changes to the Board resolution will improve the process and make it more efficient to execute minor modifications to fixed income manager IMAs, but not change the overall nature or scope of the agreement with the investment manager. The following sentence will be added to resolutions pertaining to new or amended IMAs with fixed income managers, including TCW, going forward:

The President or the Chief Executive Officer is authorized to execute an amendment to the Investment Management Agreement and any other documents that may be reasonably necessary. These documents may include future amendments to the Agreement that are technical in nature, reduce management fees (Exhibit B), or amend investment guidelines (Exhibit A) in conformity with the Investment Policy Statement for the Fixed Income asset class.

ATTACHMENT

- None

Prepared by:

/S/

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